

Markets This Week Ahead of the Open

Key Takeaways

- Geopolitical conflict with Iran remains prevalent prompting a “risk-off” attitude
 - Treasuries see renewed demand amid inflationary pressures and “haven” asset demand
 - Recent data suggests that labor market is beginning to slow down
 - The AI-infrastructure landscape remains strong
-

Equities continue to remain weighed down by the ongoing conflict within Iran, as more investors begin to adopt a “risk-off” attitude. A surge in haven demand paired with increased inflationary expectations has largely driven this shift in sentiment that markets have seen.

The main concern continues to remain on the spike we’ve seen in oil prices due to this conflict. Following the beginning of this week’s trading session, West Texas Intermediate futures were as high as \$108 per barrel, while Brent Crude was at \$101. This price action has most noticeably been seen in gas prices across the country, which have hit their highest level since 2024. As the conflict remains prolonged, these inflationary pressures remain elevated, and this is what has had investors concerned.

Prior to this conflict, investors had strong expectations that the Fed would continue its easing cycle, with the next rate cut to be seen in July. However, recently this hasn’t been the case, and this shift has been evident among not just investors but the Federal Reserve as well. Many Fed Reserve members who had previously advocated for rate cuts have started to track back on their statements, citing how rising energy prices have impacted their outlook. Investors had also shifted their rate-cut expectations two months forward to September, and even then, the odds aren’t as high as they were before. This backdrop, together with the latest jobs report, contributed to the increase in two-year Treasury yields and the decline in ten-year yields seen this past week.

This month’s “jobs report,” depicted a much different labor market than what we had seen from last month’s report. February’s release had shown that the economy had added 130,000 jobs in January, much higher than the anticipated 50,000. In the buildup to this month’s release, economists had raised their expectations slightly higher to 55,000 new jobs added for the month of February. This wasn’t the case. Not only had the economy lost 92,000 jobs, but many previous numbers had been revised. January had been revised from 130,000 to 126,000, while December had been revised from a gain of 50,000 to a loss of 17,000. While the labor market is starting to show signs of deterioration, how the Fed plans to respond isn’t straightforward. The conflict in Iran has added another complication in how the Fed plans to move forward yet there are still some telltale signs. The divergence we’ve seen in long and short-dated treasuries implies that markets believe in the long-run that some form of an easing policy is set to take place. A slowing labor market paired with the potential for growth complacency due to rising prices are some of the drivers behind the movement we’ve seen in yields so far.

Outside of macro developments, another theme that caught investors' attention this past week was the continued strength in demand across the AI infrastructure space. Broadcom, a provider of semiconductor software and infrastructure, released its first quarter earnings and not only beat analyst estimates on the back of sustained demand but also raised its guidance, which pushed shares higher. Marvell Technology, which produces specialized chips and networking components used in data centers, also reported strong earnings alongside higher guidance. Investors had previously been concerned about whether the current level of AI-related spending would be sustainable and what that would mean for the companies supplying the hardware and infrastructure behind it. For now, these latest earnings reports appear to have eased some of those concerns. That said, sentiment more broadly remains weighed down by ongoing geopolitical uncertainty.